

Message Text

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ACTION EB-11

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FM AMEMBASSY MANILA

TO SECSTATE WASHDC 4198

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E. O. 11652: GDS

TAGS: ETRD, EAGR, US, RP

SUBJECT: COPRA - PROPOSED REVISION OF EXPORT TAX LAW

REF: STATE 58450

1. STABILIZATION TAX LAW OF 1970 IMPOSED EXPORT TAXES ON JAMOR PHILIPPINE EXPORTS. TAXES WERE TO HAVE BEEN GRADUALLY STEPPED DOWN AND FINALLY PHASED OUT ON JUNE 30, 1974. GOP IN ITS CURRENT DRIVE FOR INCREASED REVENUE COLLECTIONS CONDLUDED THAT RETENTION OF EXPORT TAXES WOULD BE DESIRABLE, AND IT PREPARED DECREE WHICH, WITH RESPECT TO COPRA AND COCONUT OIL, IS ESENTIALLY AS DESCRIBED PARA 2 REFTEL.

2. EXPORTERS LEARNED OF PROPOSED DECREE SHORTLY BEFORE ITS PROMULGATION AND RAISED OBJECTIONS WHICH RESULTED IN HURRIED HEARINGS AND DELAY IN INTRODUCTION OF DECREE. COPRA EXPORTERS ARE PUSHING HARD FOR RETENTION OF PRESENT TWO PERCENT SPREAD BETWEEN COPRA AND OIL EXPORTS, WHILE OIL PRODUCERS REPORTEDLY HAVE PROPOSED SPREAD BE INCREASED TO TEN PERCENT. PROBABLE OUTCOME AS OF NOW IS UNCERTAIN.

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3. PHILIPPINE ECONOMISTS SUCH AS VIRATA ARE UNDOUBTEDLY SENSITIVE TO FACT THAT GRADUATED DUTIES OF DEVELOPED COUNTRIES YIELD VERY HIGH EFFECTIVE RATES OF DUTY ON VALUE ADDED IN PROCESSING OF COPRA. THIS RETARDS DEVELOPMENT OF OIL INCARCING FACILITIES IN PRODUCING COUNTRIES, WHICH IN FREE TRADE SITUATION WOULD PROBABLY GARNER ALL OIL PROCESSING IF ONLY BECAUSE OF MARKEDLY OOWER FREIGHT RATES ON OIL. FROM VIEWPOINT OF PHILIPPINE ECONOMISTS, PROPOSED EXPORT TAX DIFFERENTIAL BETWEEN OIL AND COPRA WOULD OFFER MEANS OF NEUTRALIZING IMPORT DUTY DIFFERENTIAL OF DEVELOPED COUNTRIES. THEY ARE THUS NOT LIKELY TO RESPOND TO ARGUMENTS THAT PROPOSED TAX IS TRADE DISTORTING.

4. EMBOFF HAS ALREADY INFORMALLY SUGGESTED IN LOW- KEY FASHION TO PHILIPPINE POLICY MAKERS THAT USG WOULD BE CONCERNED AT TAX MOVES WHICH WOULD ABRUPTLY DEPRIVE U. S. OIL MILLERS OF THEIR COPRA SUPPLY OR SUDDENLY MAKE OPERATION OF EXISTING U. S. PROCESSING FACILITIES ECONOMICALLY INFEASIBLE. WE HAVE SUGGESTED THAT SINCE CONVERSION TO LOCAL OIL PROCESSING APPEARS TO BE TAKING PLACE WITH PRESENT 2 PERCENT DIFFERENTIAL, ULTIMATE PHILIPPINE OBJECTIVE OF LOCAL PROCESSING CAN BE ACHIEVED WITHOUT DISRUPTIONS WHICH WOULD BE ENTAILED BY WIDENING SPREAD.

5. U. S. REPRESENTATIONS ALONG ABOVE LINES WE BELIEVE ARE USEFUL AND CREDIBLE, AND EMBASSY WOULD PROPOSE REITERATE WITH FIN SEC VIRATA AND OTHERS AS APPROPRIATE. BYROADE

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